White Paper

6 Key Metrics for Marketing Agencies

Calculations, obstacles, and best practices for financial excellence

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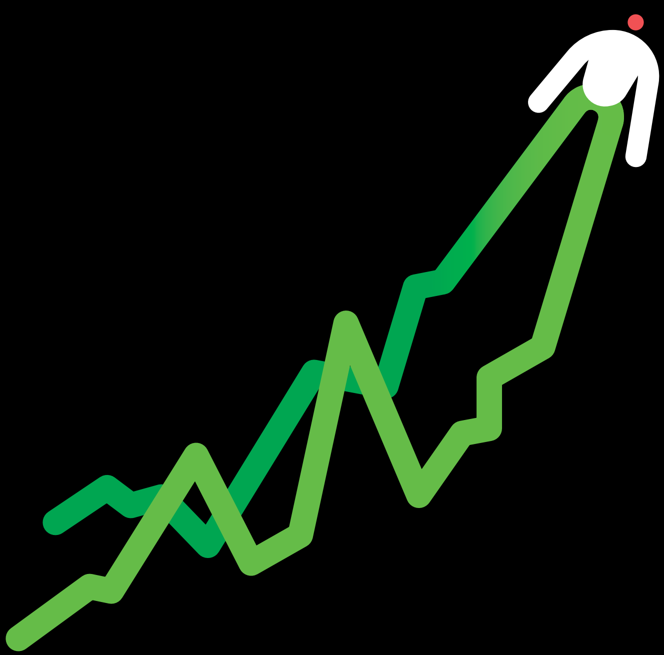

Introduction

Service Performance Insight conducted a recent survey of 540 professional services organisations ranging from IT Consulting, Management Consulting, Marketing, Accounting, Legal and other types of service-based businesses, that has helped shed new light on performance expectations in a number of key areas*. These Key Performance Indicators (KPIs), can help organisations benchmark their financial data, and identify where they need to focus as they strive for continuous improvement and growth.

This whitepaper will highlight the latest actionable KPIs specific to Marketing Agencies, and discuss the factors that commonly affect these numbers and what you can do to improve them. We will also provide real-world stories of financial leaders that have faced these challenges and found ways to succeed.

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Cash Flow – Reissuing Invoices

Let's talk about cash flow. This topic sheds light on many areas where Marketing Agencies can identify revenue leakage. While cash flow encompasses money coming in and money going out, for our purposes, let's focus on the money coming in.

Reissuing invoices due to invoicing errors can have massive consequences on your cash flow. Calculating your reissue rate is as simple as taking the number of reissued invoices divided by the total number of invoices sent. Data shows that 25% of all companies surveyed, needed to reissue over 3% of all of their invoices annually. For those companies, the impact of such a high reissue rate resulted in nearly 5% more project cost overruns and a 7% reduction in their ability to deliver projects on schedule*.

Common causes of reissuing invoices can include time coding errors, and fees that were not in the agreed upon contract. Often times, timesheets are difficult to use, disconnected from the accounting software, or completed long after the work was done. Employees can commonly forget time, put time in the wrong place, or add the wrong employment code. If the project manager doesn't catch it, your client will. Another challenge comes when the customer disputes the charges due to poor communication, confusing invoice, or a flawed schedule of work.
You can work to improve this KPI by ensuring that your team enters time daily, and they are only able to enter time to active tasks or tasks where they have been assigned. Use a billing system that recognises your contract amounts, and provides detailed project, task and resource status information that can help simplify the time entry process for your team. If you have a system that is built for project-based companies, you should be able to enforce daily time entry using alerts and visibility for your supervisors.

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Case Study

3 hrs to 5 mins

Global consolidation down from three hours to five minutes.

COLMORE
A PREQIN COMPANY

Colmore was struggling with some of legacy solutions and inherited processes.

“Our old ledger system was very old fashioned,” says Andy McKeon, group financial controller at Colmore PS. “There were a lot of long-winded manual processes, all prone to human error. We needed to tighten things up.”

The company evaluated different options before selecting Sage Intacct, seeking a simple way to create a centralised financial data repository with increased flexibility. “Sage Intacct had the functionality that we were looking for around consolidations, multi-entity and multi-currency,” says Andy. “And it's good value for money when compared to other solutions.”

Learn more about Colmore PS:
Case Study

Cash Flow – Billing Cycle

"The invoicing process is often the primary bottle neck administrative teams face as they scale the business."

There's much more that impacts cash flow than just reissuing invoices. Your overall billing cycle starting with the moment your cost is incurred and ending with your cash receipt, can also have significant impact on the financial health of your business. If you bill monthly, as most agencies do, you can imagine incurring an expense or employment cost on the 1st of the month, billing for it on the 30th and collecting for it another 30 to 45 days later. That doesn't include any challenges you have to getting your bills out the door. Many companies take 5 to 10 additional days just to prep the invoices to send to their clients.

The cost accumulation throughout the month is commonly referred to as Work in Progress (WIP). WIP is an asset since it's billable, and if you track it you generally clear it out every time you bill for it. If your cost accumulation is fairly uniform throughout the month then you can estimate your WIP ageing to be 15 days, add that to your average days to get the bills out the door after the end of the billing cycle, then add that to your average AR days ageing.

Common causes of lengthy billing cycles can be late time entry, adjustments, long project manager review processes and complex invoices that are manually created. Depending on the complexity of your billing process, it can take anywhere from 5 to 10 days to get your bills out the door. Disconnected or generic accounting systems are very difficult on the billing process for marketing agencies because they often lack billing functionality that is capable of the heavy lifting required. It can be impossible to grow your business, and this is often the primary bottle neck administrative teams face as they scale.

If you are using a disconnected or generic accounting system, there is very little you can do to fix the billing cycle. You need to work with an accounting system that is built to handle complex project accounting and billing requirements. Once you have a system with the features you need, you can reduce things like the lengthy approval process by providing real-time project financial data to your Project Managers so they already know what will be on the invoice and have taken action on time entry errors. You can also create a purely digital invoice review process with alerts to keep your managers on task and create an audit trail of any invoice change requests. Your ability to create even the most complex invoices should be solved with the right financial system, allowing you to invoice faster and grow your business.

Reducing your billing cycle provides very tangible benefits. If a company has £23 million in annual revenue with an average billing cycle (not including WIP ageing) of 45 days and they reduce by 10% to 40 days, that can create up to £317,000 in additional cash on hand. That improves your value, ability to secure any loans, and overall increases your financial flexibility.

Case Study

60% Faster Monthly Cycle

Traction on Demand

Traction on Demand was entering a phase of significant growth, expanding from 150 to 500 employees. They needed a more connected system to automate project billing to keep pace with the heavy workload. With Sage Intacct, they were able to connect their systems and reduce administrative burden on the monthly billing process.

To learn more: case study.

"Because of our integrated solution, we're able to forecast our cash with a fair bit of precision, and that's pretty phenomenal because cash is one of the hardest things to forecast."

Corinne Hua
CFO

Cash Flow – Collections

"The longer the collections process takes, the more likely there will be bad debt, write offs and strains on your financial health."

After you've invoiced your customer it becomes a waiting game for payment. Most companies will have scheduled email reminders or phone calls to ensure payment at 15, 30 and 45 days. There is also language regarding payment in the customer contract that specifies terms and timelines. With all that in place, it can still be difficult to collect. Many agencies don't track their AR ageing (also known as Days Sales Outstand – DSO). DSO is a simple calculation of your total revenue for the year divided by 365 to get your daily revenue, then divide that by your AR balance at the end of the year and you get the average number of days from billing to payment.

While the recent survey noted an average of 45 days for DSO*, that number can vary wildly depending on the specific type of work you do. Let's focus on what impacts that number and what you can do to improve it.

The longer the collections process takes, the more likely there will be bad debt, write-offs and strains on your financial health. Common causes to delayed collections are billing disputes, clarifications and customers that just like to wait until the last minute to pay. It seems like there is little you can do to improve this process but that's not the case.

You can find ways to improve the collections process. Many organisations will offer incentives to their customers for paying early, such as 2% off (commonly referred to as 2/10 Net 30).

Incentives are nice, but they can defeat the purpose of adding to your cash flow. Ensure your contract has timelines that make sense for you. Try switching from 30 days to 14 or even 10. If you're dealing with a large company, try to understand their standard payment process and invoice them just before they cut their AP checks.

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Case Study

CREATIVE DINING SERVICES
Complete Hospitality Management

£760,000
Improved cash flow due to reduced AR collections time

Creative Dining was struggling with visibility into the fundamentals of their business, and was stuck with gruelling manual data management. Switching to Sage Intacct allowed them to become strategic in their operations, and provide AR specific dashboards to their business units to reduce their collections time.

To learn more: case study.

"We're seeing massive savings due to the automation we've accomplished with Sage Intacct. And rather than crunching numbers all day, we are seen as strategic business advisors to our client location units."

Jeff Banaszak
CFO

Utilisation

"The longer it takes to fill out the timesheet, the more likely it will be missing time that should be billable."

Utilisation is the single most used metric of any Professional Services organisation that needs to track time entry. Over the years, business leaders have heavily focused on ways to maximise the utilisation of their teams, given its direct impact on the bottom line. Survey results put the average utilisation at about 73% for Marketing Agencies with year-to-year fluctuations within 1% to 2%*. The type of service provider can have more impact on this number. For example, software implementation teams and agencies that sell fixed fee or subscription services tend to see lower utilisation (closer to 68%) due to high write-offs, rework and low bids to win lucrative contracts.

There are multiple ways to measure utilisation. Some will look at total billable hours vs. 40 hours, allowing for over 100% utilisation when employees are overworked. Another common way is to compare billable hours vs. the total hours entered in the same period. The second method can allow for a detailed analysis of how your employees are spending their time if you also capture their non-billable activities.

A common issue for smaller agencies is they just don't track time very well. In many cases their timesheets are disconnected from the accounting system making it difficult to measure and improve. They also tend to struggle to track any details regarding their time entry. Another issue can be the regularity that time is entered, basically the longer it takes to fill out the time sheet, the more likely it will be missing time that should be billable.

Time entry needs to be done daily. You should also track every bit of time that your employees are 'on the job'. That means tracking time when they are training and working on administrative tasks. Making improvements here starts with accurate measurement. Once you have that, you can take steps to ensure time entry is easy and billable events are not missed.

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Case Study

18% Increase Billable Utilisation

Halloran

Halloran consulting was flying blind with understanding their time entry as they worked through a busy work schedule. By switching to Sage Intacct, they were able to get a comprehensive view into their professional team's output and drive strategies that resulted in an 18% increase in utilisation.

To learn more about Halloran consulting, please read case study.

"Before, we were stuck in the day-to-day weeds of closing the month. We'd get two days to breathe after the close, but couldn't analyse the data or get new projects done — there was no time. Now I can look at my dashboards and reports and know that the data is solid and literally up to the minute."

Tania Zieja
CFO

Revenue Leakage (write-offs)

"Is the value of a discounted pound different than the value of a pound written off?"

Revenue leakage should be closely monitored for any service-based organisation. Things like disputed charges, rework and discounting can all have a massive impact on the bottom line. Based on survey data, average revenue leakage sits at about 4.3%*. Marketing agencies are even worse at 4.9%. That is very high. It's difficult to say how much of this is related to discounting services up front, but it is common for agencies to start a project knowing that it was underbid. This number can vary based on the type of service you deliver. For example, consultancies averaged 3.1% revenue leakage, while software services averaged just over 5.2%*.

Revenue leakage is identified as revenue that was earned but not realised. It can be difficult to fully grasp because some contributing factors can happen at the timesheet level with entries that were missed, or not entered because you knew that it wouldn't be billed. To see how you stack up, you can simply compare your write-offs to your employment revenue.

It's important that you are still capturing all your billable revenue and then writing it off if you can't bill it. If you change that revenue to a non-billable type transaction, or don't account for it at all, you can drastically change your reporting. Keep things that are actually non-billable activities separate from things that are billable, even if you know it will be written off. That way you know your true project performance and you can accurately bid future jobs.

Revenue leakage is most commonly blamed on underbidding contracts. That means that projects tend to start off on the wrong track. Rework is the other primary driver of this number. Write-offs are common when there is a dispute between the agency and the client. Typically, the agency feels it is best to provide some amount of additional work to satisfy the customers displeasure.

The best way to reduce your revenue leakage is very straightforward. Quote your projects based on past project performance, not past contracts. And, don't be afraid to bill your clients for additional work that results from a change, no matter how small. All of this should be clearly discussed in the beginning stages of the contract. While you do need to balance winning jobs and customer satisfaction, make sure you're not doing it at the expense of your company profits.

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Case Study

<5 Months Software aid for itself

GeoTechnologies, Inc.

European Paving Designs was looking to be more forward thinking in their approach to their business and the market they serve. They were early adopters of Sage Intacct's cloud-based solution and since making the switch, they have grown by over 400% without increasing the financial team's overhead.

To learn more about European Paving Designs, please read case study.

"Sage Intacct's reports and dashboards let us drill into revenue and expenses for any project in real-time, and ensure a huge time savings for our finance team... We're able to give senior management timely access to valuable business performance insight, rather than delivering outdated reports months later."

Debora Hester
Controller

Project Profit

"Project managers have a tendency to complete 80% of the project work with the remaining 20% of the budget."

Project profit is the most tracked KPI for service-based companies. Survey results put the average project margin at about 36% but again this can vary depending on the type of service you provide. It can also correlate to your access to information. SPI noted a 12% difference in profitability in companies that reported having access to real-time project costing, and those that did not*.

Surprisingly, not everyone tracks project profit the same way. For many, it comes down to how you calculate your employment cost for salaried employees. If they work more than 40 hours in a given week, do you reduce their cost against your project? Some people do, while others will use a standard cost rate regardless of hours worked in a period. Using a standard cost will add a payroll variance to your ledger but that's a small price to pay for real-time project costing data. Using effective costs should be done with caution due to the challenges of historical reporting as well as other cost adjustment issues that result from recalculating cost after you run payroll.

Project profit can be affected by a number of factors. Project managers have a tendency to complete 80% of the project work with the remaining 20% of the budget. The primary hit to project profit comes from underbidding at the beginning and then comping work as customer disputes inevitably arise. Another factor can be delayed or inaccurate time entry. Late timesheets can cause project managers to make project decisions based on the thought of having more room to work with in the budget. Late timesheets are also more error prone, which may not impact the project's profit, but you do miss billable time and reduce potential revenue, as well as introduce some of the cash flow issues mentioned above.

The best way to ensure you are optimising your project performance is to provide real-time project costing to your project managers and review these reports regularly with your team. Of course, just tracking the accumulating cost isn't enough, you should be tracking the actual percentage of completion on the project and its tasks to the lowest.

level of effort that makes sense. Some of the most advanced project tracking can be done with a detailed analysis of what you've earned by percent complete, compared to what you've spent to date. If you take those metrics and add the aspect of expected delivery time, then you have a very powerful project management model, commonly referred to as Earned Value Analysis. Consistency and visibility are the key to project success.

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Case Study

12% Rise Project margins

Halloran

Halloran consulting was using a combination of QuickBooks and NetSuite's OpenAir to manage their project work. As a result, the project costing data was disconnected and out of sync. By switching to Sage Intacct, they were able to get their project managers real-time data, and drive higher project profit.

To learn more about Halloran consulting, please read case study.

"We really hit it out of the park last year because we were able to see real-time data. Any time we saw things going south, we were able to react really quickly rather than waiting until the quarter was done."

Tania Zieja
CFO

About
Sage Intacct

Sage Intacct is the AICPA's preferred provider of cloud financial applications. Over 1.5 million projects are run on Sage Intacct for a variety of organisations including consulting, biotech, marketing, technology, accounting and more. Sage Intacct streamlines project accounting, while delivering real-time budget vs actual visibility for project managers, and detailed financial reporting for finance teams.

Our modern, true cloud solution, with open APIs, gives project-based businesses the connectivity, visibility and efficiency they need to drive project performance.

At Sage Intacct, we help service organisations strategically grow their business through detailed insights to support critical decisions.

A Sage partner

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Contact our partner

We specialise in implementing Sage business solutions such as Sage Intacct and Sage X3, along with providing additional solutions that compliment Sage and deliver true business value.

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